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INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0382
RUEHJA/AMEMBASSY JAKARTA PRIORITY 0235
RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0062
RUEHWL/AMEMBASSY WELLINGTON PRIORITY 0003
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHGV/USMISSION GENEVA PRIORITY 0738

C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 000895

SIPDIS

DEPT FOR NEA/ARP (HARRIS), EAP/CM, EEB/TPP, AND EEB/ESC/IEC

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TAGS: [ECON](#) [ETRD](#) [ENRG](#) [WTO](#) [SA](#)

SUBJECT: CHINESE DUMPING PROBE OUTRAGES SAUDIS

Classified By: DCM David Rundell, reasons 1.4 (b) and (d).

¶1. (SBU) Summary: Saudis responded sharply July 4 after Beijing began a dumping probe on two of the Kingdom's petrochemical products. Newspapers published unusually critical statements, probably in part to signal the displeasure of government and industry leaders to the PRC. A Saudi Deputy Minister of Commerce was dispatched on short notice to Beijing to talk through the issue. A Chinese Embassy spokesman attempted to mollify Saudi concerns in a press conference July 5 by explaining that the dumping investigation was at its earliest stages and Saudis would have a chance to make their views known, and implicitly, to resolve the dispute. This spat is a rare exception to the two countries' otherwise successful efforts to improve bilateral economic ties in recent years. End summary.

Saudis express outrage over Chinese dumping probe

¶2. (SBU) Saudi petrochemical producers called for duties on industrial imports from China on July 4 after Beijing began a dumping probe on petrochemical products from Saudi Arabia, Indonesia, Malaysia, and New Zealand. The dispute is limited to methanol and butanediol (BDO), which make up between 10 and 15 percent of Saudi Arabia's \$2 billion in annual non-oil exports to China. Press reports quoted Saudi Export Development Center (SEDC) executive council chairman and former Deputy Minister of Commerce Abdul Rahman al-Zamil reiterating the Kingdom's longtimemessage that Saudi Arabia does not "subsidize" its petrochemicals exporters, and he called China's protection policy "unacceptable."

¶3. (SBU) Al-Zamil warned that petrochemical producers would oppose a free trade agreement between the Gulf Cooperation Council and China if China imposes an anti-dumping duty. He also called for a working group composed of representatives from the Saudi Ministries of Foreign Affairs, Commerce, and Finance to respond to the Chinese decision. A Ministry of Commerce official told Econoff July 5 that Deputy Minister for International Trade Abdullah al-Hamoudi was traveling to China that day on very short notice. Press reports later confirmed that the Ministry sent a delegation to China to discuss the matter.

China attempts to diffuse anger

¶4. (SBU) The Chinese Embassy spokesman in Riyadh told reporters July 5 that "China is still undecided about imposing an anti-dumping charge on Saudi petrochemical exports, as the investigation into dumping of Saudi petrochemicals to China is at the preliminary stage." Either a punitive tariff or a "guarantee fund" charge of less than

five percent of the goods' value could be levied, he said. The spokesman emphasized the importance of the Sino-Saudi economic relationship and said China would "consider the Saudi view" on the issue. (Note: Two-way trade between China and Saudi Arabia exceeded \$41.8 billion in 2008, and according to some reports had been increasing at a rate of 30 percent annually before the financial crisis. End note.)

Comment

¶5. (SBU) The Saudis and Chinese have worked assiduously to strengthen bilateral relations over the past several years. Despite deep cultural differences between the two countries, their governments share an appreciation for the mutual benefits that could be accrued from closer trade ties (Saudi oil for cheap Chinese products and turnkey construction projects). King Abdullah's first official foreign travel upon his 2005 accession was to China (followed by India) in ¶2006. The Saudis then successfully amplified positive domestic publicity for President Hu's February 2009 visit to Saudi Arabia.

¶6. (C) Therefore we view the public nature of this trade spat as somewhat unusual and probably designed in part to signal Saudi government and industry's displeasure over the Chinese decision to open a dumping investigation on a product category that the government views as key to its development strategy to move up the petrochemical value chain away from simply exporting crude oil. The strength of the reaction also reflects the Kingdom's desire to counter swiftly any

RIYADH 00000895 002 OF 002

assertions that cheap feedstock prices are a subsidy, much less part of a strategy of petrochemical dumping. To our knowledge this dispute is the first hitch in the growing Sino-Saudi economic relationship in several years. End comment.

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